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Germany Between a Rock and a Hard Place in China-US Competition



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The Biden administration has just issued its [Interim National Security Strategic Guidance](#). The guidance document states the need to “build back better at home” and acknowledges that “international economic policies must serve all Americans” – a theme often referred to as “foreign policy for the middle class”. While the interim guidance does not preclude cooperation with China in selected policy areas, it is unambiguous in considering China a strategic competitor. The prospect of intensifying China-US geopolitical and (geo)economic competition is bad news for Germany, which has high value trading and investment relationships with both countries.

COMPETING STRATEGIC INTERESTS

It comes as no surprise that the Biden administration refers to China as a strategic competitor. Conflicting strategic interests have been pushing the United States and China towards competition and confrontation for quite some time.

For more than a century, US grand strategy has sought to prevent the emergence of a hegemonic power on

either side of the Eurasian landmass. A hegemonic power in Europe or East Asia would have the potential to threaten US security and it might lead to the US being economically excluded from major overseas markets. Whenever a state has threatened to dominate Europe or East Asia, the US has ended up going to war. This was the case in the First World War, Second World War, and the Cold War.

China, on the other hand, considers the US's extensive alliances and military presence in Asia a potential threat to its security and domestic political stability. China's increasing integration into the international economy over the past four decades has translated into increased dependence on overseas trade. This has created new economic and political vulnerabilities, particularly with respect to strategic and essential imports, like energy.

China is eager to mitigate its vulnerabilities and, thanks to its economic rise, is now in a position to credibly contest the US military presence in Asia. China sees the US presence in the region as providing Washington with the means to destabilize China, econom-

ically and politically, while China's increasing power and assertiveness have the US worried about its own strategic position in East Asia. In short, conflicting strategic interests and mutual security concerns fuel the fire of China-US competition, if not (yet) confrontation.

INCREASING SECURITY AND ECONOMIC COMPETITION

The modernization of China's military puts increasing pressure on the US position in the region. In addition to China's investment in asymmetric capabilities (e.g. anti-satellite and anti-ship ballistic missiles), its maritime strategy of "near seas defense and far seas protection" and its construction of a blue water navy capable of operating on the open seas give Washington cause for concern.

The logic driving the expansion of China's navy is easy to understand given its increased dependence on international trade and increased need to defend the maritime shipping routes it depends on. So does its so-called String of Pearls strategy that is meant to protect China's international trade routes and support its import and export activity.

in the East and South East China Sea in order to push out its security perimeter. In other words: China and the US find themselves faced with a classic security dilemma; or, as Graham Allison has put it, a [Thucydides trap](#), describing an apparent tendency towards war when a rising power threatens to displace an ruling one.

Security competition between the two countries has also spilled over into the economic and technological realm, undermining trust even further. Washington has not been shy about weaponizing economic interdependence by, for example, limiting Chinese access to key US technologies (e.g. semiconductors) or imposing new tariffs on Chinese imports or tightening investment restrictions targeting China.

Being in the weaker position, China's response has been proportional rather than escalatory. But it has spurred China to address the risks and vulnerabilities arising from economic interdependence through diversification (e.g. EU-China investment treaty), regional economic integration (e.g. Regional Comprehensive Economic Partnership, Belt and Road Initiative) and greater emphasis on indigenous economic and technological capabilities

ing to limit their interdependence in terms of other critical goods (e.g. rare earth minerals and semiconductors). Such a decoupling policy reduces vulnerability at the expense of otherwise mutually beneficial bilateral economic cooperation.

HARDENING ATTITUDES TOWARDS CHINA IN THE US

A decade and a half ago, senior US government officials were hoping that China – benefitting from the existing international economic and political order – would become a "responsible stakeholder". Officials also believed (or rather hoped) that economic modernization would lead to domestic political liberalization, which might in turn make it easier for China to rise peacefully – meaning that China would embrace the principles, norms and institutions on which the open liberal international order is based. But things didn't turn out as the US had hoped.

In fact, it is next to impossible to find any senior government official, member of congress or think-tanker in Washington D.C. today who is not a China hawk or at least a China skeptic. For a start, virtually all the Biden administration officials occupying senior positions in the national security and economic realm are firmly critical of China. After all, most of them served in the Obama administration and experienced first-hand how the US-China relationship deteriorated. Many of those officials and staffers got their wake-up call when President Xi reneged on his 2015 promise not to militarize the disputed artificial islands in the South China Sea.

That said, officials in the Biden administration are not ideological "China-bashers", in spite of the administration's renewed emphasis on a value-based US foreign policy. They accept strategic competition as a fact of

International factors and domestic political dynamics point to a more hawkish China policy.

Meanwhile, US military doctrine and concepts such as offshore control, which are designed to limit China's access to the open sea, heightens Chinese security concerns about so-called chokepoints and its ability to keep trade routes open. China is challenging the territorial and maritime status quo

(e.g. Made in China 2025, China Standards 2035, Dual Circulation strategy). All of these policies aim to reduce China's economic-technological vulnerability in the context of intensifying China-US security competition. Technological competition has kicked into full gear and both sides are also seek-

life but strive for “[competition without catastrophe](#)” in the words of foreign policy hands and senior Biden administration officials Jake Sullivan (national security advisor) and Kurt Campbell (Indo-Pacific “czar”). They also believe that it is necessary to engage and seek cooperation with China in selected areas (e.g. climate change and public health), but they accept that the overall relationship is and will remain competitive, perhaps even adversarial. Across the US administration, Washington D.C.’s political class and the think tank world, there is an almost unanimously-held view that the US needs to compete with, and – where necessary – confront, China.

Not only is a hawkish China policy one of the very issues that commands bipartisan support of the political class these days. But, according to Pew Research, public opinion is also taking an increasingly negative view of China. A [recent poll from Pew Research](#) showed that three-quarters of Americans have a negative view of China. Although some of the negative polling is due to the pandemic, popular opinion is unambiguously anti-China. Few elections will be won by being “soft” on China. Corporate America hasn’t turned against China in the same way, but it has become more skeptical. Limited access to Chinese markets, Chinese competition, and China’s industrial and technology policies that often disadvantage foreign companies have led many (but not all) sectors to become more wary of China. Both international factors and domestic political dynamics point to a more competitive and hawkish China policy.

DETERRENCE, REASSURANCE, AND GEO-ECONOMICS

What will the Biden administration’s China policy look like? The US will seek to deter China militarily and reassure regional allies by strengthening its mil-

itary presence and diversifying its military footprint in the region as well as by tightening its alliances (e.g. Japan, South Korea, Australia) and coordinating more closely with actual and potential security partners (e.g. India, Vietnam). It is less clear what the Biden administration will do in the economic sphere. The US is not sufficiently engaged in the region to prevent its allies from becoming more dependent on China. The Biden administration is not likely to re-join the Trans-Pacific Partnership (or the Comprehensive and Progressive Agreement on Trans-Pacific Partnership, as it is now known) given its lack of appetite to engage in any kind of trade liberalization. While the

BAD NEWS FOR GERMANY

The US and China are Germany’s first and second largest export markets, accounting for a [combined 6-8 percent of Germany’s GDP](#). In terms of total trade, China is Germany’s largest trading partner. For a large number of German companies, China is their largest and fastest-growing market. The US and China are also the most important and third most important destinations for German foreign direct investment.

Intensifying China-US geostrategic and (geo)economic competition is likely to land Germany between a rock and a hard place. China-US rivalry may

Germany is going to be a loser in the growing China-US competition.

US will move to strengthen security cooperation with its allies and partners, its economic strategy will be lacking.

The Biden administration will continue to privilege national security over economic cooperation. Policies aimed at strategic technological and economic decoupling will likely become less broad and more targeted and effective. The US will also continue to push for the creation of a level playing field and will seek to enroll the support of its European and Asian allies. However, this is unlikely to deliver much progress given China’s backtracking on market reforms and increasing concerns in Beijing about giving up government control over the economy at a time of mounting international security competition. This does not mean that compromise is impossible, but a grand bargain that creates a level playing field between the US and China is not on the cards, no matter what policy the Biden administration pursues.

lead both the US and China to pressure Germany to support their respective policies, including economic decoupling, export controls, investment controls, etc. Germany’s economic dependence on both China and the US make it particularly vulnerable and susceptible to diplomatic pressure from both Beijing and Washington D.C.

The EU may well consider China a strategic rival and an economic competitor. And Berlin may find much to criticize about China’s economic policies and an uneven level play field. But no-one can wish away the fact that China is of major economic importance to Germany. Meanwhile, the US remains Germany’s largest export market, the most important destination of foreign direct investment and a crucial provider of advanced, including foundational and emerging technology. The intensification of China-US competition will create many losers. Germany is going to be one of them.

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